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IN THE

Supreme Court of the United States

OCTOBER TERM, 1960.

No. 501

BINKS MANUFACTURING COMPANY,

Petitioner,

vs.

RANSBURG ELECTRO-COATING CORPORATION,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

REPLY BRIEF FOR THE PETITIONER.

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PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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REPLY BRIEF FOR THE PETITIONER.[1]

1. *Tie-in.* As detailed in Petitioner's main brief (pp. 28-33), Respondent Ransburg has always joined equipment leases with the licenses it granted, and no one has ever been given a license for the No. 2 Process except in conjunction with an equipment lease. Respondent Ransburg implicitly recognizes that its patents give it no right to engage in this tie-in practice but attempts to explain the practice on the ground that the equipment supplied was the "minimum" needed by the licensee, was not "readily available" elsewhere, and was merely "incidental" or a "necessary evil" to its marketing of licenses (Resp. Br. 10-12, 21-22).

These facts, even if supported by the record (which as shown below is not the case), would not legalize Respondent's practice within the meaning of this Court's tie-in decisions. For there are no exceptions to the rule that tying

[1] This brief is filed pursuant to leave of Court granted during the oral argument of this cause.

arrangements are *per se* violations of the Sherman Act "* * * whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected." *Northern Pacific Railway Co.* v. *United States*, 356 U.S. 1, 6 (1958). We have already demonstrated in our main brief that Respondent has complete dominance in its "tying product"—the Starkey patents—and that a not insubstantial amount of commerce is affected. Respondent in its brief does not, and could not, controvert these facts.

There is another reason why Respondent's attempted justification for its tying agreements has no relevance. As the course of this litigation illustrates, equipment of Respondent's design was by no means the only kind which could be used to practice the patented method.[2] For instance, Petitioner developed equipment of a different design which "* * * simplified everything down to only what we needed for an emitter * * *" and which "* * * could operate * * * with existing equipment with very little modification" (R. I: 710, 711). Respondent's argument that its equipment was "needed" by its licensees is thus based upon the false premise that only Ransburg equipment was usable in practicing the Starkey method patent.[3]

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[2] Even in the method patent drawings there are illustrated three modified forms of apparatus which could be used to practice the patented method. R. II: 1021, 1023.

[3] Respondent at page 26 of its brief has attempted to show that in his testimony Petitioner's president agreed that persons wishing airless electrostatic coating equipment naturally wanted Ransburg's equipment. To create this impression Respondent has given a misleading quotation from the record by erroneous punctuation and omission of crucial words in that testimony. In fact, Petitioner's president testified that prospective customers "might feel they would be better off getting it from Ransburg than they would from somebody else *who isn't in that particular field*" (R. III: 247; emphasis supplied). Of course, the point of this lawsuit is that Petitioner was ready and capable to enter that "particular field."

In any event, the record does not support Respondent's attempt to minimize the effect of its unvaried practice of tying in equipment leases. That the supply of this equipment was not "incidental" to Respondent's licensing program is refuted by its representations to the trade in sales literature, both before and after 1953, that "Ransburg supplies the complete automatic coating unit * * *", and the absence therein of any mention of a concomitant license under its patents or inventions (Pl Ex. IIII, R. II: 862; Pl. Ex. EEEE, R. II: 854; Pl. Ex. UUUU, R. II: 879-880; R. III: 428-429).[4]

The error of Respondent's statement that it has only supplied equipment not available elsewhere is apparent when reference is made to the typical list of items customarily furnished its license-lessees (Exhibit G, R. I: 182; see also Pet. Brief, pp. 33-34). Additionally, its reliance on the alleged fact that "power packs to supply high voltage" were not obtainable elsewhere for the No. 2 Process is based solely on testimony that Respondent could not get them for the No. 1 Process in 1944 (Resp. Br. 10; R. III: 168-169). Significantly, in 1950, just prior to the commencement of marketing of its No. 2 Process, Respondent wrote its salesmen that power packs were being advertised by others for use in electrostatic painting (Def. Ex. 24, R. III: 283).

Respondent also contends that there is no tie-in because it has always been willing to grant licenses without leases under its patents for the No. 2 Process. There is no indication as to what the terms of such agreements would have been prior to 1953. In that year Respondent prepared and stocked printed forms which, it has claimed, show the terms

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[4] Respondent finds significance in the fact that since 1953 its sales brochures have stated that it supplies equipment "when desired" (Pl. Ex. UUUU, R. II: 880; Pl. Ex. VVVVV-1, R. III: 429). A fair reading of the brochures leads to the conclusion that the words meant only that the equipment would be supplied *in the event that the customer did any business at all with Ransburg.*

under which such a license would be granted if it were ever to vary from its tie-in program. These forms merely deleted the portions of the license-lease forms which provided for the lease. The new alternative form provided, as shown in more detail in our main brief, pp. 38-40, that the license would be limited to the use of the patents being licensed "with one unit as shown in Ransburg's Drawing No. —." Respondent thus reserved to itself the power to determine what equipment would be used in practicing the license, which was equivalent to the power to require that equipment of its own design be used. Respondent's representation that the drawing "would illustrate whatever apparatus was actually desired by the licensee" (Br. p. 25, n. 10) is no answer even if true. For the crucial consideration is that Respondent, which drafted this agreement form, has retained the *power* to require the use of equipment it has designed and which it alone manufactures. Moreover, the license is restricted to use of the equipment "subject to such changes therein and such further specifications as Ransburg may prescribe * * *," thus giving Ransburg the right, at any time, to require the licensee to make changes in the equipment even though it should be owned by the licensee. It is apparent that Respondent reserved complete power to determine what kind of equipment a licensee under this form would use. The District Court made no finding as to whether the alternative agreement in its terms constituted a realistic alternative; and, clearly, no such alternative was ever offered here.

That the sole alternative to the license-lease agreement offered by Ransburg contained the above-described provisions is shown clearly when reference is made to its "Sales Bulletin No. 148", dated April 4, 1955, which specified by number and enclosure therein its "current forms in the event any licensees desire a license only * * *" (Def. Ex. 28, R. III: 315). Such alternative form for airless electrostatic spraying under the No. 2 Process was shown as form No. 4[redacted] appearing at R. III: 339 (as part of this same Defendant's Exhibit 28).

Respondent has in every instance tied in, with its patent licenses for the No. 2 Process, equipment leases. This method of business in itself is illegal, regardless of whether Respondent may have been "willing" to grant licenses alone. This Court's decision in *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942), is unequivocal authority for this proposition. The record there showed that "There is no evidence that the plaintiff [patentee] ever refused * * * to license any shoe manufacturer; nor is there any evidence that any shoe manufacturer ever sought * * * a license" to use the patented process on a royalty basis without purchasing unpatented materials. *B. B. Chemical Co.* v. *Ellis*, 117 F. 2d 829, 837 (C.A. 1, 1941). This Court nevertheless held that the patentee's tie-in method of doing business constituted patent misuse regardless of its expression to the Court of willingness "to give unconditional licenses to manufacturers on a royalty basis." 314 U.S. at 498. The same principle is applicable where a tie-in arrangement is alleged to have resulted in violation of the antitrust laws. That is, it is not necessary that *all* customers have been *forced* to take the tied product or that no one has been refused a sale or lease of the tying product alone. A *general method of doing business by way of tie-in agreement* is itself sufficient to constitute antitrust violations. Thus in *International Salt Co.* v. *United States*, 332 U.S. 392, 398 (1947), this Court held a tie-in practice to violate Section 1 of the Sherman Act and Section 3 of the Clayton Act despite the fact that "The tying clause has not been insisted upon in all leases, nor has it always been enforced when it was included. But these facts do not justify the general use of the restriction which has been admitted here."

There is an additional tie-in issue presented in this case *which is separate and distinct from that discussed above.* This second tie-in question is addressed to Respondent's tie-in of unpatented replacement parts to its license-leases, whether the license be for a patented method or a patented apparatus, or both. All of Respondent's standard lease

forms by which the user receives Respondent's equipment provide that the user shall receive replacement parts from time to time free of any charge in addition to the initial fee already paid and the continuing fees payable monthly. Under this type of agreement, the user is forced economically to take individual unpatented components of the apparatus (wire, hose connectors, and the like) which he could purchase from any supplier and to which no patent monopoly attaches. (see for example, the testimony of licensee Wallin at R. I: 644-645). Competitors of Respondent in these components are thus wholly shut out from this line of commerce.

2. *Grant-back.* Respondent's brief at pages 18 and in footnote 14 on page 32 now alleges that its grant-back clauses were cancelled by letters to licensees in September, 1959. Since that date is subsequent to the date of the District Court's judgment in the case and even to the Petitioner's appeal, it can have no bearing on the issues before this Court except to highlight another attempted purge of its monopolistic activities.

3. *Procurement of Starkey patents.* Respondent utterly fails to justify its wrongful procurement of its Starkey patents on basis of affidavits omitting the material disclosure of its commercial No. 2 system as not being one wherein the electrostatic field *alone* was the sole agent for effecting electrostatic atomization and coating.

For the first time in this case, Respondent belatedly now attempts, at page 36 of its brief herein, to argue away its withholding of material facts in the affidavits of the Starkey patent application as to the operation of its No. 2 system by reference to its later Juvinall patent No. 2,839,425. Aside from the significant fact that such later patent *is not certified as part of the record before this Court,* what was done in the procurement of it has no materiality to the earlier Starkey application.

Respondent conjectures, without any support therefor in this record, that because such Juvinall patent states in a

footnote that a 12-page document was received in the Patent Office on September 19, 1951, it must be assumed that such document was actually on file there, but more important that it is identical to Exhibit IIII (R. III: 455-459). Actually the record shows Respondent issued many brochures and bulletins. Then too, the title, (Ransburg No. 2 Electrostatic Process) of Exhibit IIII does not conform to that of the one allegedly filed in the Patent Office entitled "No. 2 Electrostatic Process Ransburg Electro-Coating Corp." Thus, there is no evidence of record here of the actual content of the brochure Respondent asserts was received in the Patent Office in 1951, let alone any reference to it in the file history of the Starkey application.

Assuming a reference was made in the procurement of other patents of Respondent to a disclosure of the operation of the No. 2 system, it would only serve to emphasize the deliberateness of Respondent in failing to reveal it in the Starkey application affidavits. To have made such disclosure in the affidavits would have immediately made it evident to the Patent Office that the No. 2 system did not have the alleged "heart" of Starkey's invention, namely the use of the field *alone* as the sole agent for effecting atomization and spraying of paint. In this respect, it was unequivocally admitted by Respondent's expert, Dr. Miller (who recorded in 1943 Starkey's concept (R. I: 563)) that in the No. 2 system when the centrifugal force is arrested the field is ineffective as the paint then drops onto the floor. (R. I: 349, 350-1).

Thus, Respondent well knowing its No. 2 system did not embrace "the heart" of Starkey's invention concealed this fact from the Patent Office in affidavits filed to show commercial success of the invention. Further, there is no dispute but that Respondent admitted in this suit (R.A. 2, 30, 37; R. I: 194, 199, 200; Int. 149, R. I: 70) that none of the structures of the Starkey patents was ever commercialized.

The file history (Physical Ex. 5A and 5B) of the Starkey method patent shows on its face that the foregoing material admitted facts were omitted therefrom, and hence this Court can determine for itself, as a matter of law, whether the Respondent was guilty of such inequitable conduct as to bar enforcement of the Starkey method patent as well as the dependent apparatus patent divided therefrom.

The lower courts made no findings or conclusions of law specifically on Respondent's aforesaid omissions. Since as a matter of law such omissions or withholding of evidence clearly involved inequitable conduct, Respondent, under the decisions of this Court is barred from enforcing its Starkey patents in suit.

CONCLUSION

For the reasons stated in this brief and in our main brief, the decision of the Court of Appeals should be reversed and judgment entered ordering the relief requested in Petitioner's main brief.

Respectfully submitted,

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SUPREME COURT OF THE UNITED STATES

No. 501.—October Term, 1960.

Binks Manufacturing Co., Petitioner, *v.* Ransburg Electro-Coating Corporation.	On Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit.

[May 8, 1961.]

Per Curiam.

After hearing oral argument and fully examining the record, we conclude that the totality of circumstances as the record makes them manifest did not warrant bringing the case here. Accordingly, the writ is dismissed.